



M-S-R PUBLIC POWER AGENCY
ORGANIZATION, AUTHORIZATIONS, POLICIES, &
PROCEDURES
MANUAL

Adopted by Commission
September 30, 2020
Resolution 2020-02
Table of Contents

I. INTRODUCTION	4
A. PURPOSE	4
B. RESPONSIBILITY	5
C. MANAGEMENT	5
D. M-S-R PPA ORGANIZATION CHART	9
II. ORGANIZATION AND AUTHORITIES	10
A. M-S-R PPA PRESIDENT	10
B. M-S-R PPA VICE PRESIDENT.	10
C. GENERAL MANAGER	10
D. SECRETARY	11
E. M-S-R PPA COMMITTEES	11
F. FISCAL AUTHORIZATION	13
G. CONFLICT OF INTEREST POLICY	14
III. TREASURER/CONTROLLER FUNCTIONS, BUDGET DEVELOPMENT, INVOICE APPROVAL PROCESS, REIMBURSEMENT AND INVESTMENT POLICIES . . .	14
A. TREASURER AND CONTROLLER	14
B. WORKING CAPITAL AND MEMBER PAYMENTS	15
C. M-S-R PPA ANNUAL BUDGETS	17
D. PROCUREMENT POLICY	17
E. INVOICE APPROVAL PROCESS.	17
F. REIMBURSEMENT POLICIES	17
G. INVESTMENT POLICIES	18
H. DEBT MANAGEMENT POLICY.	18
I. COUNTERPARTY CREDIT REPORTING	18
IV. OTHER M-S-R PPA PROJECTS, POLICIES & PROCEDURES	20
A. M-S-R PPA PROJECTS AND RELATED OPERATING PROCEDURES	20
a. SAN JUAN PROJECT	20
b. PACIFIC NORTHWEST PROJECT	21
c. OPERATING AGREEMENT AND M-S-R COORDINATOR	21
i. Operating Agreement Service Schedule A – Big Horn Wind Energy Project	22

ii. Operating Agreement Service Schedule B – Reserved . . .	23
iii. Operating Agreement Service Schedule C – Reserved . . .	23
iv. Operating Agreement Service Schedule D – Resource Agreements. . .	23
v. Operating Agreement Service Schedule E – Reserved . . .	23
vi. Operating Agreement Service Schedule F – Reserved . . .	23
vii. Operating Agreement Service Schedule G – Reserved . . .	23
viii. Operating Agreement Service Schedule H – Reserved . . .	23
ix. Operating Agreement Service Schedule I – Reserved . . .	23
x. Operating Agreement Service Schedule J – Reserved . . .	23
xi. Operating Agreement Service Schedule K – Operating and Accounting Procedures For Big Horn II Wind Energy Project.	23
B. ENVIRONMENTAL COMMODITIES	24
a. RENEWABLE ENERGY CREDITS (WREGIS RECs)	24
b. CLEAN AIR ACT ALLOWANCES	25
C. WILDFIRE MITIGATION PLANS	25
D. M-S-R PPA LEGISLATIVE PROGRAM	25
E. WEBSITE ACCESS AND POSTING OF PUBLIC DOCUMENTS	26
F. CYBER SECURITY POLICY	26
G. DOCUMENT RETENTION POLICY, PUBLIC RECORDS REQUEST, AND PHOTOCOPY POLICY	27
H. ADOPTION OF CEQA GUIDELINES	27
I. ADOPTION OF GUIDELINES FOR THE ACQUISITION OF REAL PROPERTY . . .	27
J. M-S-R PPA ANNUAL STRATEGIC PLAN	27
K. REVIEW OF POLICIES AND PROCEDURES MANUAL	28
V. PAST PROJECTS AND OBLIGATIONS	29
A. GEOTHERMAL PROJECT	29
B. ARIZONA NUCLEAR POWER PROJECT (ANPP)	29
C. INTERCONNECTION/ECONOMY INTERCHANGE AGREEMENTS (VARIOUS) . . .	29
D. SOUTHWEST TRANSMISSION PROJECT	30
E. PACIFIC NORTHWEST LETTER AGREEMENTS (BONNEVILLE CONTRACT) . . .	32
F. DEVERS-PALO VERDE NO. 2 TRANSMISSION PROJECT (DPV-2)	32
G. ADELANTO-LUGO TRANSMISSION PROJECT	33
H. CALIFORNIA-OREGON TRANSMISSION PROJECT AND SOUTH OF TESLA PRINCIPLES .	34

Adopted by Commission - 2 - September 30, 2020

I. EAST SIDE TIE	35
J. SAN JUAN GENERATING STATION (OPERATING PHASE)	36
VI. HISTORIC LEGAL AND REGULATORY ACTIONS	38
A. TUCSON ELECTRIC POWER COMPANY – BREACH OF CONTRACT.	38
B. STOLEN BEARER BONDS	38
C. SIERRA CLUB/GRAND CANYON TRUST CLEAN AIR ACT – SAN JUAN	39
D. SIERRA CLUB GROUND WATER – SAN JUAN	39
E. SOUTHERN CALIFORNIA EDISON TRANSMISSION RATE CASES	39
F. BONNEVILLE POWER ADMINISTRATION AGREEMENT AND OTHER LITIGATION	40
G. CALIFORNIA SENATE BILL 1368	42
VII. FINANCING HISTORY	44
ALPHABETICAL LIST OF EXHIBITS	48

Adopted by Commission - 4 - September 30, 2020

I. INTRODUCTION

The M-S-R Public Power Agency (M-S-R PPA or Agency) is a joint powers agency created in 1980 pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and is governed by a Commission consisting of one representative from each M-S-R PPA Member. Members of M-S-R PPA include the Modesto Irrigation District and the Cities of Redding and Santa Clara, California. The Governing Bodies of the Members appoint M-S-R PPA Commissioners and any Alternates.¹

A. PURPOSE

M-S-R PPA is empowered to acquire, construct, manage, operate, maintain, and finance projects, including but not limited to the purchase, generation, transmission or distribution of energy.

M-S-R PPA's purpose is to maximize the value of its existing assets for the benefit of the Members and to respond to Member needs where joint action, rather than individual action, is deemed to be in the Members' best interests. M-S-R PPA is also intended to provide more responsive services to its Members than may be possible from larger or state-wide agencies or associations.

The initial project of M-S-R PPA was to develop a geothermal resource. In 1982, the Joint Exercise of Powers Agreement (JPA) was amended and restated to allow for the development of the San Juan Project (as further described in § IV (A) (a) of this manual) which was an undivided interest in an operating coal unit in New Mexico and supporting utility services from the Tucson Electric Power Company (TEP). In 1990, Amendment Number 1 to the JPA was approved to allow for the development of transmission assets for delivery of capacity and energy from the San Juan Project to California (Southwest Transmission Project or SWTP) beginning in 1995. In 2006, Amendment Number 2 to the JPA extended the term of the JPA indefinitely, and prohibited termination until all Agency obligations are satisfied. In 2016, the ownership interests in the SWTP were sold to the Southern California Public Power Authority (SCPPA) and the energy generating assets of the San

¹ Joint Exercise Of Powers Agreement of the M-S-R Public Power Agency By And Among the Modesto Irrigation District and the City Of Santa Clara and the City Of Redding, dated as of April 29, 1980, Amended and Restated as of November 17, 1982, as amended by Amendment Number 1 to the Amended and Restated Joint Powers Agreement, dated June 26, 1990, and by Amendment 2 to the Amended and Restated Joint Exercise of Powers Agreement, dated January 24, 2006.

Juan Project were sold to the Public Service Company of New Mexico (PNM) in 2017. M-S-R PPA's remaining obligations related to the San Juan Project include shares of plant decommissioning cost, mine reclamation cost, and potential environmental liabilities (referred to as "Legacy Liabilities" and as further described in § IV (A) (a) of this manual.

B. RESPONSIBILITY

The Agency is a California joint powers agency created pursuant to the California Government Code and is subject to California laws generally applicable to public agencies, including, but not limited to, the Ralph M. Brown Act, Public Records Act, Political Reform Act and other conflict of interest laws. The Agency and its officials must abide by the Conflict of Interest Code adopted by the California Fair Political Practices Commission for the Agency. M-S-R PPA is governed by its Commission. The M-S-R PPA Commission meetings are chaired by its President, a Commissioner who is subject to annual election by the Commission². Meetings of the M-S-R PPA Commission are normally held on the third Wednesday following the first Monday of the month, pursuant to a schedule adopted by the Commission prior to the close of the prior year³. Minutes of Commission meetings are taken by the Secretary, who is appointed by the Commission. The Commission may or may not choose to elect a Vice-President.

C. MANAGEMENT

M-S-R PPA's General Manager directs Agency activities and reports directly to the M-S-R PPA Commission. The General Manager oversees the contracts and performance of consultants and advisors, and coordinates the activities of M-S-R PPA's standing and any Ad Hoc Committees. The current M-S-R PPA standing committees are the Technical Committee, the Financial Management Committee, and the Risk Management Committee.

The office of the General Manager was originally created in 1980 to carry out delegated authorities assigned by the Commission and was first filled by Modesto Irrigation District (Modesto) staff members (Charles S. Viss (1980 – 1987) and Kenneth H. McKinney (1987 – 1996). In 1996 Dennis

² Resolution No. 2013 – 01 adopted March 20, 2013 Regarding Election and Duties of Officers.

³ Resolution No. 2013 – 05 adopted October 16, 2013 Regarding Meeting Schedules And Procedures For Posting Of Agendas For The M-S-R PPA Commission.

W. DeCuir was engaged as Interim General Manager and was directed to prepare a Strategic Plan for the Agency and to recruit an independent General Manager. Subsequent General Managers have been retained by the Commission pursuant to Professional Services Agreements specifying their duties and as codified in Resolution 2013 – 01 referenced above. The independent General Managers include William C. Walbridge (1997 – 2003), George F. Fraser (2004 – 2006) and Martin R. Hopper (2007 – 2008 as M-S-R Director, a position created by the Commission which temporarily had all the rights, obligations, and authorities of a General Manager and 2008 – Present as General Manager.)

Pursuant to the JPA, the Treasurer and Controller of Modesto are designated to the same positions for the Agency. The Modesto Board of Directors determines the charges made for such services, with concurrence of the Agency, as provided under California Law.

Legal services for the Agency are furnished by independent providers including General Counsel, Bond Counsel, FERC Counsel, California Regulatory Counsel, BPA Counsel and local counsel as required. Incumbent providers include:

- General Counsel: In August 1997, M-S-R PPA entered into an agreement with Porter Simon, Professional Corporation to provide independent General Counsel services to the Agency.⁴ This agreement may be terminated at-will by the Agency.
- Bond Counsel: In May 1997, M-S-R PPA entered into its current agreement with Orrick, Herrington & Sutcliffe, LLP for Bond Counsel services.⁵ This agreement may be terminated at-will by the Agency.
- FERC Counsel: In January 1986, M-S-R PPA entered into a legal services agreement with Duncan, Weinberg & Miller, PC, now known as Duncan, Weinberg, Genzer & Pembroke, PC, for FERC Counsel services.⁶ This agreement may be terminated at-will by the Agency.
- California Regulatory Counsel: In April 2013, M-S-R PPA entered into a Legal Services Agreement with Law Offices of Susie Berlin, as successor to McCarthy and Berlin LLP,

⁴ Agreement for Legal Representation between Porter Simon Professional Corporation and M-S-R Public Power Agency dated as of August 1, 1997.

⁵ Engagement Letter For Bond Counsel Services Outside a Specific Financing Program Between the M-S-R Public Power Agency And Orrick, Herrington & Sutcliffe LLP dated as of May 27, 1997.

⁶ Legal Services Agreement Between the M-S-R Public Power Agency and Duncan, Weinberg & Miller, PC dated as of January 17, 1986.

for California regulatory counsel services.⁷ This agreement may be terminated at-will by the Agency.

- BPA Counsel: BPA Counsel services are provided by Duncan, Weinberg, Genzer & Pembroke, PC, who also act as FERC Counsel pursuant to their existing Legal Services Agreement as referenced above.
- New Mexico Counsel: In April 2019, M-S-R PPA entered into an Engagement Letter with Virtue & Najjar, PC, for New Mexico counsel services.⁸ This agreement may be terminated at-will by the Agency.

Professional consulting, advisory and auditing services are furnished by independent providers including Financial Advisor, General Consultants, California Legislative Advocacy, and Financial Auditor as required. Incumbent providers include:

- Financial Advisor: In December 2009, M-S-R PPA entered into an agreement with Montague DeRose and Associates, LLC (Montague DeRose) for Financial Advisor Services. As amended and extended, the term of this agreement is through December 31, 2018 with three optional annual renewals available through December 31, 2021⁹. In July 2016 this agreement was further amended to add certain disclosures and acknowledgements as provided by law.
- General Consultant: In September 2010, M-S-R PPA entered into an agreement with KBT, LLC (KBT) for the purpose of securing General Consulting services¹⁰. M-S-R PPA has KBT available to perform specific tasks as assigned by the General Manager regarding generation, transmission, renewable energy, and administrative services. The term of this agreement is open-ended but can be terminated upon 30 days notice.

⁷ Legal Services Agreement By and Between Law Offices of Susie Berlin and the M-S-R Public Power Agency dated April 1, 2013.

⁸ Engagement Letter Between Virtue & Najjar, PC and the M-S-R Public Power Agency dated April 24, 2019.

⁹ Agreement For Professional Financial Advisor Services by and between M-S-R Public Power Agency, and Montague DeRose And Associates, LLC, effective January 1, 2010, as amended through Amendment No. 2.

¹⁰ Agreement for Professional Services by and between KBT, LLC and M-S-R Public Power Agency dated September 15, 2010.

- General Consultant: In July 1999, M-S-R PPA entered into an agreement with Resource Management International, Inc, (nka Navigant, A Guidehouse Company) as amended¹¹, for the purpose of securing General Consulting services. M-S-R PPA has Navigant available to perform specific tasks as assigned by the General Manager regarding generation, transmission, renewable energy, and administrative services. The term of this agreement is open-ended but can be terminated upon 30 days notice.
- California Legislative Advocacy: In January 2013, M-S-R entered into a Professional Services Agreement with Politico Group for California legislative advocacy services as directed by the General Manager regarding generation, transmission, and renewable energy issues¹². This agreement may be terminated upon 30 days notice. Services under this agreement were suspended May 31, 2020 due to the COVID-19 pandemic and may be restarted in the future dependent on the Agency's needs.
- Financial Auditor: Effective November 18, 2015, M-S-R PPA entered into an agreement with Baker Tilly Virchow Krause KBT, LLP (BT-VK) for the purpose of securing Financial Audit services¹³. M-S-R PPA has BT-VK available to prepare financial statements and to perform annual audits under the review of the Commission. This agreement provides for a fixed price for audit services through the completion of the audit for the Agency's fiscal year ending December 31, 2019 and for two optional extensions through fiscal years ending December 31, 2021.

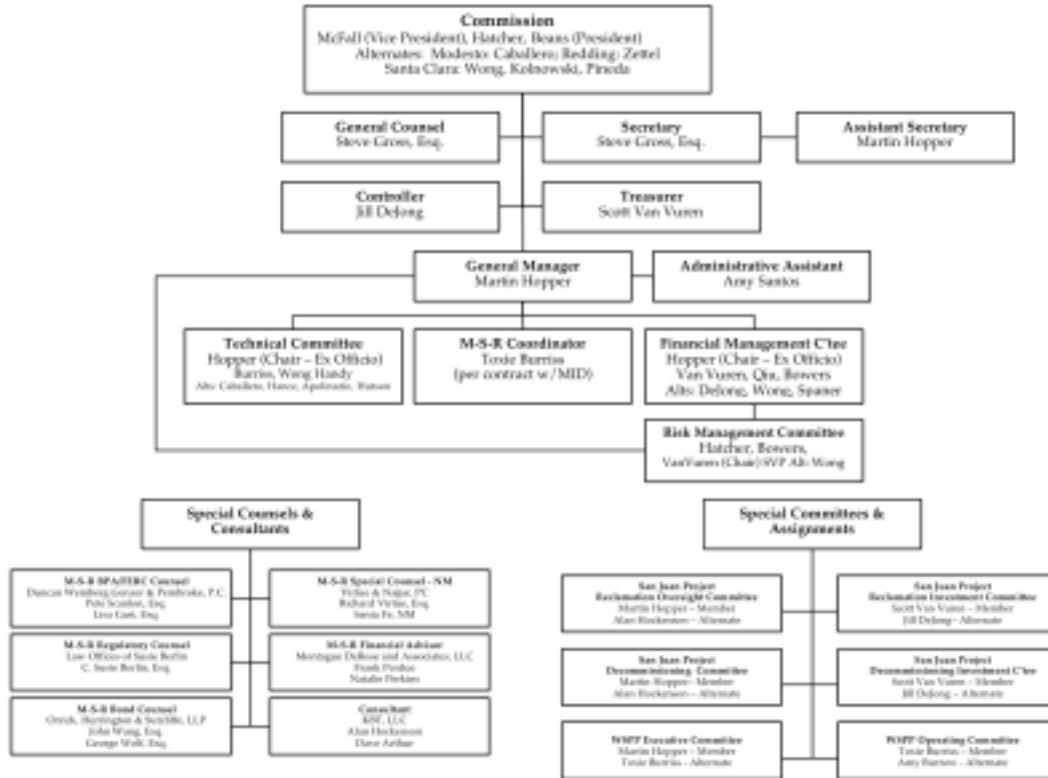
¹¹ Agreement for Professional Services by and between Resource Management International, Inc, (nka Navigant, A Guidehouse Company) dated July 22, 1999, as amended February 7, 2012.

¹² Agreement For Professional Services By And Between M-S-R Public Power Agency and Politico Group effective as of January 1, 2013.

¹³ Engagement of Baker Tilly Virchow Krause LLP as independent accountants dated September 25, 2015.

M-S-R PPA ORGANIZATION CHART (AS OF SEPTEMBER 30, 2020):

M-S-R Public Power Agency Organization Chart



Revised: September 30, 2020

II. ORGANIZATION AND AUTHORITIES

The JPA organizes the Agency as described in the previous section to provide for governance, management, and conduct of M-S-R PPA's activities. All financial decisions are made by the Commission, except for those specifically delegated to the General Manager. Policy direction is provided by the M-S-R PPA Commission. Policy is further provided in the Annual Strategic Plan, which is updated by the Technical Committee and adopted by the Commission on an annual basis.

A. M-S-R PPA PRESIDENT

The M-S-R PPA President, as specified in Resolution 2013 – 01, Election and Duties of Officers, shall preside at all meetings of the Commission when he or she is present, cause an agenda to be prepared and distributed by the General Manager in advance of the meeting, which shall list each item of business or correspondence to come before the meeting insofar as is known, may act as an official spokesman of the Agency at the direction of the Commission, make all appointments except as otherwise provided, execute contracts on behalf of the Agency when authorized by the Commission and perform such other duties as are assigned to him or her from time to time by the Commission.

B. M-S-R PPA VICE PRESIDENT

The Vice-President performs the duties of the President in the absence or disability of the President.

C. GENERAL MANAGER

The Commission has assigned the General Manager certain duties to carry out on behalf of the Agency as enumerated in Resolution 2013 - 01 and specified in the Management Services Agreement.¹⁴ The General Manager chairs certain standing committees. The General Manager maintains the authority to act within Commission direction and policy contained within the Annual Strategic Plan. The General Manager has also been designated as a Special Agent of the Agency.

¹⁴ Amended and Restated Management Services Agreement by and between M-S-R Public Power Agency and Martin R. Hopper dba Martin Hopper Energy Consulting effective as of, January 1, 2010, as amended.

The General Manager Succession Plan¹⁵ addresses continuity and secession options for all General Manager activities under three distinct circumstances:

1. Temporary or Short-Term Absence of General Manager
2. Unplanned Absence of General Manager
3. Retirement of General Manager.

D. SECRETARY

The Secretary keeps the minutes and files of the Agency, authenticates its acts and keeps a correct roll of each member of the Commission, and his or her alternate. The Assistant Secretary shall perform the clerical duties of the office, and shall act as Secretary in the absence or disability of the Secretary. The Commission appointed the General Counsel as Secretary and the General Manager or his or her designee as Assistant Secretary. Their respective duties are also set forth in Resolution 2013-01.

E. M-S-R PPA COMMITTEES

There are presently three active standing M-S-R PPA Committees:

- Technical Committee
- Financial Management Committee
- Risk Management Committee

In 2011, the Commission instructed the General Manager to abolish previous committees created by the General Manager and established the Technical and Financial Management Committees. These Committees are subject to and will comply with the Ralph M. Brown Act. The Commission adopted Rules of Procedures for both Committees that are structured similarly.^{16 17} Neither Committee shall have any officers. The General Manager shall preside over and cause minutes to be prepared of each meeting. The General Manager will coordinate the efforts of Members providing services to the Committees and shall oversee the support provided by General Counsel and any contractors also providing services to the Agency.

¹⁵ General Manager Succession Plan dated February 19, 2020

¹⁶ Resolution No. 2011-01 adopted January 19, 2011 Rules Of Procedure For The Technical Committee.

¹⁷ Resolution No. 2013-10 adopted October 16, 2013 Amended and Restated Rules Of Procedure For The Financial Management Committee.

The duties of the Technical Committee include, but are not limited to: 1) annually recommend a five year strategic plan for the Agency; 2) review proposals for the acquisition or divestiture of resources; 3) recommend modifications of arrangements supporting the management or operation of resources; 4) review individual Member issues with the Agency brought to the attention of the Technical Committee for discussion and potential resolution; 5) review and develop strategies for complying with regulatory issues and other externalities; 6) review the technical aspects of legal action, whether current, pending, or under consideration; and 7) address other issues that may be specifically assigned by the Commission.

The duties of the Financial Management Committee include, but are not limited to: 1) review and consideration of candidates for Financial Advisor; 2) review and consideration of candidates for Bond Counsel; 3) coordinate with the Financial Advisor and Bond Counsel to the extent necessary; 4) review of proposals for the financial products that may be solicited or unsolicited that may be beneficial to the financial management of the Agency; 5) recommend modifications of arrangements supporting the financial management of assets; 6) implement the Risk Management Policy and communicate risk management issues to the Commission together with the General Manager, oversee the Risk Management Committee together with the General Manager, and oversee the activities of the Coordinator Services Coordinator together with the General Manager; 7) review individual Member issues with the Agency brought to the attention of the Financial Management Committee for discussion and potential resolution; 8) review and develop strategies for complying with financial management issues and other externalities; 9) review the financial aspects of legal action, whether current, pending, or under consideration; and 10) address other issues that may be specifically assigned by the Commission. These duties are reiterated in the Agency's Debt Management Policy adopted May 17, 2017 as referenced in Section III (H).

The Risk Management Committee was established by the Commission with the adoption of the Energy Risk Management Policy and Risk Management Committee Guidelines¹⁸. This Committee is subject to and will comply with the Ralph M. Brown Act. The duties of the Risk Management Committee include, but are not limited to: 1) establish the processes and frequency for measuring, monitoring, and reporting the business risks that are within the scope of the Risk Management Policy,

¹⁸ Resolution No. 2013-06 Adopted October 16, 2013 Regarding Energy Risk Management Policy and Risk Management Guidelines.

2) approve all methodologies used in risk measurement, 3) monitor the Coordinator Services Contractor (whose duties and authorities are described in Section IV (A) of this Policy Manual) compliance with the Risk Management Guidelines, 4) present reports to the General Manager and Financial Management Committee detailing risk management activity, 5) perform an annual review of the Risk Management Committee Guidelines to maintain procedures and limits appropriate with the business activities of the Agency, 6) establish Risk Management Committee meeting procedures, 7) meet no less frequently than annually, 8) review transaction and risk reports.

F. FISCAL AUTHORIZATION

The M-S-R PPA Commission approval of the annual budget and strategic plan for a fiscal year is the authorization for the conduct of all activities included in the annual budget. Pursuant to Section 2.2 of the Joint Exercise of Powers Agreement of the M-S-R Public Power Agency, the Members pay for the costs associated with the operation of the Agency and are entitled to all rights and property of the Agency in the following portions: Modesto 50%; Santa Clara 35%; and Redding 15%. Project Agreements or unanimously adopted resolutions may provide for differing allocations of costs. Typically, all work for the Agency is routine in nature. If additional outside assistance is required of legal counsel or consultants or can be provided by Member staff, particularly if such work is outside the annual budget limits, the General Manager will consult with the appropriate standing committee to assess support for a Task Order to complete such work and will seek authorization from the Commission if the level of effort is deemed by the General Manager to be of significant magnitude to warrant a budget modification or augmentation.

Work elements are defined in the annual strategic plan that informs the approved budget. Most activities are described, known ahead of time, and are repetitive (e.g. preparation for and support of the meetings of M-S-R PPA Committees and the Commission). Thus, no additional authorization is required to perform such activities.

The Agency has also covenanted to collect sufficient funds to meet all its obligations and to meet the debt service coverage requirements in its Bond Indentures and the annual budget must be so set by the M-S-R PPA Commission. Procedures for the calculation of debt service coverage have been reviewed by Bond Counsel and adopted by the Commission.¹⁹ In 2016 the Agency created a Debt Service Coverage Revolving Fund to assure maintenance of debt service coverage through the remaining life of San Juan Project Bonds²⁰.

G. CONFLICT OF INTEREST POLICY

The Political Reform Act (Government Code Section 81000, et seq.) requires state and local government agencies to adopt and promulgate conflict of interest codes. The M-S-R PPA Conflict of Interest Code was most recently updated in 2016 and was approved by the California Fair Political Practices Commission effective July 6, 2016²¹.

¹⁹ Resolution No. 2014-07 adopted September 24, 2014 Regarding Calculation of Debt Service Coverage.

²⁰ Resolution No. 2016-02 adopted July 20, 2016 regarding Debt Service Coverage Revolving Fund Operating Procedures.

²¹ Conflict of Interest Code for M-S-R Public Power Agency effective July 6, 2016.

III. TREASURER/CONTROLLER FUNCTIONS, BUDGET DEVELOPMENT, THE INVOICE APPROVAL PROCESS, REIMBURSEMENT AND INVESTMENT POLICIES.

This section of the manual outlines various actions and activities undertaken by PPA's Treasurer/Controller. Also discussed herein are authorities related to the annual budget and strategic plan development processes, as well as invoice approval controls used by Controller staff and Agency expense policies.

A. TREASURER AND CONTROLLER

The positions of Treasurer and Controller are designated by the JPA as those persons responsible for the financial management of the Agency, as well as all other property the Agency may own or control. The Treasurer and Controller of the Modesto Irrigation District serve as Treasurer and Controller for the Agency. The Treasurer and Controller, and Assistant Treasurer(s) and Assistant Controller(s) remain until a future designation by the Modesto Irrigation District.

The Treasurer and Controller are responsible for the payment of Commission and/or General Manager-approved expenditures and payments in accordance with the Agency's Invoice Approval Procedure described below. The Treasurer and Controller are also authorized to withdraw moneys from the Agency's funds and accounts.²² The Treasurer and Controller cause the preparation of the Agency's accounts and records in accordance with the latest accounting rules promulgated by the Government Accounting Standards Board (GASB) for recording financial transactions by government agencies. In the absence of GASB accounting rules, the Agency is required to follow Financial Accounting Standards Board (FASB) accounting rules to record accounting transactions. An Asset Capitalization Policy has been adopted to provide guidance to the Controller in making determinations as to whether certain expenditures should be charged to utility plant or to expense.²³

Pursuant to Government Code Section 6505(e) and the directives of the General Manager, the Treasurer causes the preparation of monthly Treasurer's Reports for presentation to the Commission

²² Resolution No. 2012-03 adopted July 18, 2012 Approving Signatories Authorized to Invest M-S-R Public Power Agency Monies in the Local Agency Investment Fund and Other Permitted Investments.

²³ Resolution No. 2014-06 adopted August 20, 2014 Regarding Asset Capitalization Policy.

at each of its regular meetings²⁴. Pursuant to Government Code Sections 6505(b) and 26909(a)(2) and Section 17.2 of the M-S-R PPA Joint Power Agreement, the Controller shall cause the annual audits of the accounts and records of the Agency to be prepared and filed with the Bond Trustee, the State Controller and the Stanislaus County Auditor.

B. WORKING CAPITAL AND MEMBER PAYMENTS

The Agency maintains a Strategic Reserve should be composed of five tranches, Operating Reserves pertaining to Administrative and General Budgets, Purchase Power, and San Juan Fixed Expenses; and Legacy Liabilities Reserves pertaining to Mine Reclamation, and San Juan Decommissioning. Minimum reserve levels and target reserve levels are recommended for each tranche.²⁵ The Strategic Reserve subsumes the former Member Cash Call Reserve Account (MCCRA) but maintains the Reserve and Contingency (R&C) Fund as required by the Indenture within the San Juan Fixed Expenses Operating Reserve. The Strategic Reserve also allows the Agency to invoice the Members monthly for actual generation and variable costs incurred in the prior month and not utilize estimated invoices billed in advance of expenditures. The Strategic Reserve may also provide funds for unexpected operation and maintenance expenses, repair costs, capital improvements, replacements, or betterments related to M-S-R Projects formerly addressed by the MCCRA. Status of the Strategic Reserve is reviewed on an annual basis as part of the preparation of the Annual Budget.

The Agency's fixed costs, including Debt Service payments are invoiced monthly at one-twelfth of the total amounts adopted in the Annual Budget and true-up after the close of the fiscal year. Member's invoice payments are made by wire transfer or electronic equivalent pursuant to a policy previously implemented for M-S-R PPA on the basis of administrative efficiency.²⁶ The Commission has adopted a policy specifying the procedures for payments made by a third party on behalf of a Member²⁷ and a policy harmonizing the late payment provisions of the Tucson/San Juan Project Power Sales Agreement and the Pacific Northwest Project Power Sales Agreement.²⁸

²⁴Memorandum Dated November 23, 2015 Regarding Filing of Quarterly Treasurer's Reports and Annual Audits

²⁵Resolution No. 2020-01, adopted September 30, 2020, regarding Working Capital Policy.

²⁶M-S-R PPA Director's administrative directive dated June 8, 2007.

²⁷Resolution No. 95-3 adopted April 19, 1995 Establishing A Policy For Payments By Third Parties On Behalf Of A Member To The Agency.

²⁸Resolution No. 2018-02, Adopted September 19, 2018, Regarding Late Payment Policy.

C. M-S-R PPA ANNUAL BUDGETS

The fiscal year for both M-S-R PPA and Modesto budgets are January 1 through December 31. However, the fiscal year for both the Cities of Santa Clara and Redding budgets are July 1 through June 30. As requested by the Members, two-year rolling budgets for the Agency are prepared annually. The first-year budget is formally adopted and the second-year budget is advisory only. As discussed in Section II, the M-S-R PPA Annual Budget is the authorization for the conduct of all Agency activities.

D. PROCUREMENT POLICY

Although the Agency does not typically engage in public works or procure goods on behalf of its Members, as specified in Resolution 2013–08²⁹ it is the policy of the Agency to make competitive procurements and retain highly qualified professional service providers in the best interests of its Members.

E. INVOICE APPROVAL PROCESS

As specified in Resolution 2009–02,³⁰ all invoices, bills, demands, and claims upon the Agency are paid by the Treasurer on the recommendation of the General Manager or President or their respective designees and on the review of the Controller or his respective designees. At each regular meeting of the Commission of the M-S-R PPA, the Treasurer makes a report of all invoices, bills, demands, and claims paid since the prior regular meeting of the Commission.

F. REIMBURSEMENT POLICIES

As specified in Resolution 2013–09,³¹ M-S-R PPA adopted a policy by which the Agency reimburses its Members for actual costs incurred when they provide support services to the Agency at the direction of the General Manager.

²⁹ Resolution No. 2013–08, adopted October 16, 2013, regarding Procurement Policy.

³⁰ Resolution No. 2009–02, adopted May 20, 2009, Regarding The Timely Payment Of Invoices And Making Certain Delegations Of Agency

³¹ Resolution No. 2013–09, adopted on October 16, 2013, Regarding Reimbursement of Costs of Support Services Provided By Member Agencies.

G. INVESTMENT POLICIES

M-S-R PPA maintains an Investment Policy pertaining to the funds of the Agency in conformance with Title 5, Division 2, Part 1, Chapter 4 of the California Government Code, commencing with Section 53600, which is annually reviewed and adopted by motion of the Commission.³²

H. DEBT MANAGEMENT POLICY

On May 17, 2017, the M-S-R PPA Commission established a Debt Management Policy³³ in compliance with Government Code Section 8855(i). The purpose of this policy is to:
Maintain a sound financial position.

Ensure flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.

Protect credit-worthiness.

Ensure that all debt is structured in order to protect both current and future wholesale customers and ratepayers of M-S-R PPA's Members.

Ensure that the debt is consistent with M-S-R PPA's planning goals and objectives, capital improvement program and/or budget, as applicable.

Due to the issuance of the San Juan Project Revenue Bonds Series 2018R on June 12, 2018, the Agency is required to issue an annual debt transparency report pursuant to Government Code Section 8855(k) commencing on or before January 31, 2019.

I. COUNTERPARTY CREDIT REPORTING

The Agency has counterparty risk associated with the Big Horn Wind Energy Projects. By directive of the General Manager dated August 8, 2020, the Authority has adopted jointly with M-S-R EA a Counter Party Reporting Policy³⁴ whereby the M-S-R EA and M-S-R PPA Treasurer will provide quarterly credit updates to the Members and will report credit events as they may occur.

³² Investment Policy Guidelines of the M-S-R Public Power Agency 2020 (approved by Commission February 19, 2020.)

³³ Resolution No. 2017-01, adopted May 17, 2017, Regarding Debt Management Policy.

³⁴ M-S-R General Manager's administrative directive dated August 6, 2020 regarding Counterparty Credit Reporting Policy.

IV. OTHER M-S-R PPA PROJECTS, POLICIES & PROCEDURES

A. M-S-R PPA PROJECTS AND RELATED OPERATING PROCEDURES

a. SAN JUAN PROJECT:

The San Juan Project originally included a 28.8% Ownership Interest (approximately 146 MW) in Unit 4 of the San Juan Generating Station (SJGS) and related services provided by TEP. The Members' rights and obligations pertaining to the San Juan Project are specified in the Tucson/San Juan Project Power Sales Agreement.³⁵ Pursuant to the San Juan Project Restructuring Agreement³⁶ M-S-R PPA divested this Ownership Interest effective December 31, 2017 and no longer receives electric energy or capacity from the San Juan Generating Station. M-S-R PPA's remaining obligations related to the San Juan Project are described as "Legacy Liabilities" and in general are governed by the Restructuring Agreements. Particular obligations related to plant decommissioning expense are further addressed in the Decommissioning Agreement.³⁷ Particular obligations related to mine reclamation expense are further addressed in the Reclamation Agreement³⁸. Particular obligations related to potential environmental liabilities are addressed in the Restructuring Agreements. For a history of the operating phase of the San Juan Phase see Section V. (J) Past Projects, San Juan Generating Station (Operating Phase.)

³⁵ Tucson/San Juan Project Power Sales Agreement dated November 17, 1982, as amended August 30, 1999, between the M-S-R Public Power Agency and the Modesto Irrigation District, the City of Santa Clara, and the City of Redding.

³⁶ San Juan Project Restructuring Agreement Among Public Service Company Of New Mexico, Tucson Electric Power Company, The City Of Farmington, New Mexico, M-S-R Public Power Agency, The Incorporated County Of Los Alamos, New Mexico, Southern California Public Power Authority, City Of Anaheim, Utah Associated Municipal Power Systems, Tri-State Generation and Transmission Association, Inc. and PNMR Development and Management Corporation dated July 31, 2015.

³⁷ San Juan Decommissioning and Trust Funds Agreement Among Public Service Company of New Mexico, Tucson Electric Power Company, The City of Farmington, New Mexico, M-S-R Public Power Agency, The Incorporated County of Los Alamos, New Mexico, Southern California Public Power Authority, City of Anaheim, Utah Associated Municipal Power Systems, Tri-State Generation and Transmission Association, Inc., and PNMR Development and Management Corporation, dated July 31, 2015.

³⁸ Amended and Restated Mine Reclamation and Trust Funds Agreement Among Public Service Company of New Mexico, Tucson Electric Power Company, The City of Farmington, New Mexico, M-S R Public Power Agency, The Incorporated County of Los Alamos, New Mexico, Southern California Public Power Authority, City of Anaheim, Utah Associated Municipal Power Systems, Tri-State Generation and Transmission Association, Inc., and PNMR Development and Management Corporation, dated July 31, 2015.

The oversight committees established pursuant to these agreements and representatives assigned by the Agency are shown in the Organization Chart on page 9. An annual forecast of Agency expenditures for the San Juan Project is provided in the San Juan Ten-Year Forecast and Legacy Liability Funding Status Report, which is prepared by the Technical Committee and reviewed by the Commission.³⁹

b. PACIFIC NORTHWEST PROJECT

The Pacific Northwest Project currently consists of power sales agreements with subsidiaries of Avangrid Renewables, Inc. (Avangrid) for energy (249.5 MW installed capacity) and renewable energy credits (RECs) from the Big Horn I and Big Horn II Wind Energy Projects located near Bickelton, Washington as delivered to the Members at the California-Oregon Border. The Members rights and obligations pertaining to the Pacific Northwest Project are specified in the Pacific Northwest Project Power Sales Agreement.⁴⁰

c. OPERATING AGREEMENT AND M-S-R COORDINATOR

The Amended and Restated Operating Agreement⁴¹ (Operating Agreement) details how M-S-R PPA will perform the power scheduling, accounting, marketing, coordination and dispatching functions associated with M-S-R PPA resources on behalf of the Members and the Members' responsibilities to M-S-R PPA for the purposes of the foundational agreements for San Juan Project (including the Southwest Transmission Project) and Pacific Northwest Project. Management of the Service Schedules to the Operating Procedures is conducted by Member representatives pursuant to Section 25 of the Operating Agreement, such representatives constituting the M-S-R PPA Technical

³⁹ San Juan Ten-Year Forecast and Legacy Liability Funding Status Report, noted and filed by the M-S-R Commission February 19, 2020.

⁴⁰ Second Amended and Restated Pacific Northwest Project Power Sales Agreement dated May 24, 2005 between the M-S-R Public Power Agency and the Modesto Irrigation District, the City of Santa Clara, and the City of Redding.

⁴¹ Amended and Restated Operating Agreement Between The M-S-R Public Power Agency and the Modesto Irrigation District, The City of Santa Clara, California, and The City of Redding, California dated February 1, 1997 with service schedules that may be revised from time to time. This agreement superseded the "Principles for the Scheduling and Dispatch of the M-S-R Public Power Agency's San Juan Project Power," dated June 20, 1984.

Committee.

The Operating Agreement creates the position of M-S-R Coordinator, the functions of which were initially performed by Modesto. As the necessary functions of Coordinator expanded, the Members decided to formalize the duties through a services contract. After a competitive bid process, Modesto was awarded the initial contract and has served as Coordinator continuously ever since.⁴² The Coordinator is authorized to enter into transactions on behalf of M-S-R PPA, if requested by a Member for that Member's account, or to unilaterally enter into transactions on behalf of M-S-R PPA, in case a Member fails to meet its obligations.

Specific Service Schedules to the Operating Agreement apply to each of the Projects (or special aspects thereof) and are modified as necessary to accommodate the needs of the projects. Several of these Service Schedules became unnecessary with the divestiture of the San Juan assets as was the case with some Service Schedules associated with the SWTP.

i. Operating Agreement Service Schedule A – Big Horn Wind Energy Project.

Service Schedule A applies to the amended and restated accounting procedures for the Big Horn Energy Wind Project.⁴³ Big Horn is a 199.5 MW facility comprised of 133 1.5 MW wind machines with the output shared between the Members 12.5%/52.5%/35%. M-S-R PPA pays for two services: 1) the production of energy at the site, and 2) the shaping and firm delivery of energy to the California-Oregon Border. Because energy scheduling is performed in whole megawatts, Appendix A was developed to allocate energy based upon the actual deliveries to M-S-R PPA made by Avangrid. As this project was developed in two phases with different pricing structures, Appendix B develops the hybrid pricing algorithm for the sharing of energy costs. Appendix D provides the timing associated with the receipt and payment of monthly energy invoices. Appendix F provides the timing associated with the receipt and payment of the monthly firming and shaping invoice.

⁴²Agreements for M-S-R Coordinator Services by and between M-S-R Public Power Agency and the Modesto Irrigation District dated May 28, 1999, September 7, 2004, March 23, 2011 as amended March 18, 2015, and March 1, 2018.

⁴³ Amended and Restated Service Schedule A to the Operating Agreement, Big Horn Operating Procedures, adopted by the M-S-R PPA Commission November 18, 2006.

ii. Operating Agreement Service Schedule B – Reserved.

Service Schedule B was terminated March 8, 2018.

iii. Operating Agreement Service Schedule C – Reserved.

Service Schedule C was terminated August 4, 2016.

iv. Operating Agreement Service Schedule D – Resource Agreements.

Service Schedule D listed various economy energy agreements held by M-S-R

PPA with utilities in the Southwest.⁴⁴ As of September 2018, only the WSPP agreement remains.

v. Operating Agreement Service Schedule E – Reserved.

Service Schedule E was terminated March 8, 2018.

vi. Operating Agreement Service Schedule F – Reserved.

Service Schedule F was terminated March 8, 2018.

vii. Operating Agreement Service Schedule G – Reserved.

Service Schedule G was terminated March 8, 2018.

viii. Operating Agreement Service Schedule H – Reserved.

Service Schedule H was terminated August 4, 2016.

ix. Operating Agreement Service Schedule I – Reserved.

Service Schedule I was terminated August 4, 2016.

x. Operating Agreement Service Schedule J – Reserved.

Service Schedule J was terminated March 8, 2018.

xi. Operating Agreement Service Schedule K – Operating and Accounting Procedures For Big Horn II Wind Energy Project.

⁴⁴ Service Schedule D to the Operating Agreement, Resource Agreements, adopted by the M-S-R PPA Technical Committee March 8, 2018.

⁴⁵ Operating Agreement Service Schedule K – Operating and Accounting Procedures For Big Horn II Wind Energy Project adopted by the M-S-R Commission May 18, 2011 pursuant to Resolution 2011- 05.

Service Schedule K provides operating and accounting procedures for the Big Horn II Wind Project.⁴⁵ Big Horn II is a 50 MW facility comprised of 25 - 2.0 MW wind machines with the output shared between the Members 65%/35%/0%. M-S-R PPA pays for two services: 1) the production of energy at the site, and 2) the redelivery of fixed and variable energy to the California-Oregon Border. Because energy scheduling is performed in whole megawatts, Appendix A was developed to allocate energy based upon the actual deliveries to M-S-R PPA made by Avangrid. Appendix B develops the pricing algorithm for the sharing of energy costs. Appendix C shows a computation of Member Pricing. Appendix D provides the timing associated with the receipt and payment of monthly firm energy invoices. Appendix E provides the timing associated with the receipt and payment of monthly variable energy invoices. Appendix F provides the timing associated with the receipt and payment of the monthly firming and shaping invoice.

B. ENVIRONMENTAL COMMODITIES

a. RENEWABLE ENERGY CREDITS (WREGIS RECs)

In addition to the wind energy received from the Avangrid subsidiaries operating the Big Horn and Big Horn II Wind Projects, M-S-R PPA also receives title to all associated environmental commodities including Renewable Energy Credits (RECs). One MW of eligible renewable energy created translates into one REC. RECs are used by the Members, among other purposes, to meet their Renewable Portfolio Standard (RPS) requirements pursuant to California Law. M-S-R PPA receives the RECs from Avangrid, M-S-R PPA then allocates these RECs to the Members in proportion to the energy produced from the wind projects. RECs are accounted for and tracked in the Western Renewable Energy Generation Information System (WREGIS) and retired according to the requirements of the California Air Resources Board and California Energy Commission. M-S-R PPA has created a special Policy and Procedure No. 2009-01 to formalize the accounting and distribution of WREGIS RECs.⁴⁶

⁴⁶ Policy and Procedure 2009-01, WREGIS REC Accounting and Distribution, dated August 31, 2009.

b. CLEAN AIR ACT ALLOWANCES

Consistent with the Clean Air Act of 1990, the U.S. Environmental Protection Agency (EPA) enacted a requirement that SO₂ emitting plants be limited in their emissions. In addition, for each emitting source, the owner or operator needed to specify a Designated Representative (DR) to fulfill reporting requirements and be liable for violations. PNM as San Juan Generating Station Operating Agent provided the DR and Alternative Designated Representative (ADR) pursuant to an agreement.

As part of the Clean Air Act program, the San Juan Generating Station was awarded with an annual base number of SO₂ allowances that, pursuant to formula, represent an average operating year. With the construction and operation of the Limestone-Forced Oxidation (LSFO) Project, SJGS greatly reduced its emissions of SO₂, leaving a growing balance of unretired allowances that could be sold on open market. Pursuant to a Policy adopted by motion of the M-S-R PPA Commission September 28, 2005,⁴⁷ M-S-R PPA sold a limited quantity of these allowances until the market for SO₂ allowances virtually collapsed. Allowances remaining in PNM's account after the divestiture of the Agency's operating interest in SJGS have been transferred to the Members for their future use.

C. WILDFIRE MITIGATION PLANS

On September 24, 2016, California Senate Bill (SB) 1028 was signed into law and requires electric utilities to annually publish a wildfire mitigation plan. On September 18, 2019, the M-S-R PPA Commission established a process to prepare a Wildfire Mitigation Plan⁴⁸ if and when the Agency owns or operates qualifying facilities under SB 1028.

D. M-S-R PPA LEGISLATIVE PROGRAM

The primary goal of M-S-R PPA's Legislative and Regulatory Program is to preserve and enhance the value of M-S-R PPA assets. These assets included the San Juan Project, the Southwest Transmission Project and include the Big Horn Wind Energy Projects. M-S-R PPA only takes positions on those bills and regulatory matters directly affecting M-S-R PPA resources or duties to its Members. M-S-R

⁴⁷ M-S-R Clean Air Act SO₂ Allowance Policy Adopted by M-S-R Commission September 28, 2005.

⁴⁸ Resolution No. 2019-01, adopted September 18, 2019, Regarding Wildfire Mitigation Plans.

PPA may also, by request of the Members, take positions on bills of common interest to the entire M-S-R PPA membership. Legislative and Regulatory Workplans, for both State and Federal levels, set forth the Agency's issues and objectives for the current year and are updated as needed.⁴⁹

E. WEBSITE ACCESS AND POSTING OF PUBLIC DOCUMENTS

M-S-R PPA maintains a website at www.msrapower.org. Its purpose is to provide basic information on the Agency and its projects, provide contact information, and to post notices and information as required by the California Government Code and Agency Policy. On October 11, 2015, California SB 272 was signed into law and requires local agencies to publish a list of "enterprise" systems on their websites. By motions of the Commission, M-S-R PPA has adopted a Privacy Statement⁵⁰ and Terms of Use Agreement⁵¹ applicable to users of the website.

M-S-R PPA posts agendas and notices of public meetings at <https://msrapower.org/documents/> as required in the California Government Code and the previously referenced Resolution 2013-04 Regarding Meeting Schedules And Procedures For Posting Of Agendas For The M-S-R PPA Commission. M-S-R PPA may other information relevant to the conduct of the Agency's business on its website, including, but not limited to the Annual Budget, the Annual Financial Reports, M-S-R PPA Commission meeting minutes, and various M-S-R PPA committee meeting minutes.

F. CYBER SECURITY POLICY

M-S-R PPA does not have any facilities designated as Critical Energy Infrastructure (CEI) and hence does not have a formal cyber security policy. At this time there are neither NERC Reliability Standards nor WECC Regional Reliability Standards applicable to M-S-R PPA. As a matter of course, ordinary and prudent precautions are taken to maintain the security of the Agency's email and website access. The M-S-R Coordinator maintains separate responsibility to maintain appropriate cyber security measures related to their duties to M-S-R PPA.

⁴⁹ California and Federal Legislative And Regulatory Representative Workplans 2020.

⁵⁰ M-S-R Public Power Agency Privacy Statement Revised: July 28, 2010.

⁵¹ Terms of Use Agreement Between User and M-S-R Public Power Agency Revised: July 28, 2010.

G. DOCUMENT RETENTION POLICY, PUBLIC RECORDS REQUEST, AND PHOTOCOPY POLICY,

As specified in Resolution 2013 – 02,⁵² M-S-R PPA adopted a document retention policy which sets forth administrative practices related to the retention, distribution, and disposition of public documents in accordance with the California Public Records Act.

Through adoption of this Policy and Procedure Manual, it is the policy of M-S-R PPA to comply with all requests for public records, as required by the California Public Records Act, in a reasonable and expeditious timeframe. For regular photocopies, M-S-R PPA will charge a rate of \$0.15 per page. For scanning and digitizing a document in PDF format, M-S-R PPA will charge a rate of \$0.10 per page. Existing PDF format documents responsive to a public records request, if provided electronically, will be made available at no charge to the requestor. If copies can be made at lesser cost by an outside service provider, M-S-R PPA will only charge actual fees of such service provider for duplication. These fees were determined based upon review of actual costs for paper, office equipment, and maintenance of said equipment.

H. ADOPTION OF CEQA GUIDELINES

As specified in Resolution 95 – 1,⁵³ the Agency has adopted the model State CEQA Guidelines prescribed by the Secretary of the Resources Agency in Title 14 of the California Code of Regulations, commencing at Section 15000, and as they may be subsequently amended.

I. ADOPTION OF GUIDELINES FOR THE ACQUISITION OF REAL PROPERTY

As specified in Resolution 95–2,⁵⁴ the Agency has adopted the model State Relocation Assistance and Real Property Acquisition Guidelines specified in Title 25 of the California Code of Regulations, commencing at Section 6000, and as they may be subsequently amended and the Federal Guidelines, Title 49 of the Code of Federal Regulations, Part 24, and as they may be subsequently amended.

⁵² Resolution 2013–02, adopted on May 22, 2013, Regarding Retention and/or Destruction of Records.

⁵³ Resolution 95–1, adopted February 22, 1995, Adopting Guidelines For The Implementation of the California Environmental Quality Act.

⁵⁴ Resolution 95–2, adopted February 22, 1995, Adopting Guidelines For The Acquisition Of Real Property.

J. M-S-R PPA ANNUAL STRATEGIC PLAN

Each year the Agency prepares a Strategic Plan for consideration by the Commission at its September meeting⁵⁵ and to provide input for the consideration and adoption of the M-S-R PPA Annual Budget in November of each year. The Strategic Plan is prepared by the General Manager pursuant to Sections 1 (c) and (e) of his Management Services Agreement.

K. REVIEW OF POLICIES AND PROCEDURES MANUAL

In 2013, the Commission directed the General Manager to review the Agency's policies and procedures and to coordinate with the Technical Committee in reviewing the authorities and responsibilities of the Agency. This document is intended to meet the Commission's directive. Commencing in 2014, in even-numbered years, the General Manager reviews the manual and recommends updates or amendments for consideration by the Commission at its September meeting.

V. PAST PROJECTS

Since its founding, M-S-R PPA has participated in a number of projects which were subsequently terminated or did not reach fruition. In addition, M-S-R PPA acquired ownership interests in generating and transmission assets which have been either divested or retired. The following listing is intended to provide an overview of historic activities and provide context for past decisions by the Agency that subsequently influenced the development of its current projects, policies, and procedures.

⁵⁵ M-S-R Public Power Agency Strategic Plan effective January 1, 2020 (approved by Commission September 18, 2019.)

A. GEOTHERMAL DEVELOPMENT

As its first project, M-S-R PPA bid, and was awarded in 1980, a lease running from January 1, 1981 through December 31, 1985, to develop geothermal resources on the Abril Leasehold in Sonoma County in the “Geysers Known Geothermal Resource Area” (KGRA) in the Coastal Range of mountains in Northern California. M-S-R PPA contracted with a drilling company and explored for geothermal steam. This effort did not yield sufficient steam for commercial use and the project was eventually abandoned. During the drilling effort, certain wastes were accumulated and deposited in a common repository with similar wastes from other projects by other developers. Due to the nature of the waste, there was an ongoing liability for disposal site remediation. Through negotiation, M-S-R PPA contracted with Pacific Gas and Electric Company (PG&E), the largest contributor of waste to the site, and paid for a release of liability for the waste deposited on behalf of M-S-R PPA. Further, M-S-R PPA took additional steps to release its rights in the Abril Leasehold back to the surface owners, including a Quitclaim Deed filed in Sonoma County June 9, 2010. To M-S-R PPA’s knowledge, it retains no ongoing liability for this Project.

B. ARIZONA NUCLEAR POWER PROJECT (ANPP)

The ANPP has been constructed and is currently known as the Palo Verde Nuclear Generating Station. However, when it was in the pre-operation stages, M-S-R PPA held negotiations with multiple owners regarding the potential purchase of an interest in the project. The negotiations that proceeded the farthest were with the Arizona Public Service Company (APS) and led to the development of a process by M-S-R PPA to purchase a 150 MW ownership interest in the project. Due to the environmental concerns associated with nuclear power projects, Modesto (125 MW) and Redding (25 MW) chose to put advisory ballot measures before their constituents to assess their support for the transaction. Santa Clara elected not to participate in the process. Both advisory ballot measures failed to achieve 50% support. Negotiations were terminated, and M-S-R PPA took no further actions to enter the project.

C. INTERCONNECTION /ECONOMY INTERCHANGE AGREEMENTS

In conjunction with the San Juan Project, M-S-R PPA contacted a number of utilities in the Southwest for Interconnection and Economy Interchange Agreements. These agreements set forth protocols to be

used if economy energy was ever bought and sold between the parties. These types of agreements were commonplace at the time but have since been rendered obsolete with the advent of the Western Systems Power Pool (WSPP) and its mechanisms for exchanging energy. Most of the Economy Interchange Agreements have been either terminated or allowed to expire upon their own terms. Those that remain in effect are with PNM and TEP, as there are other portions of those agreements that are used and useful as associated with the San Juan Project.

D. SOUTHWEST TRANSMISSION PROJECT

The Southwest Transmission Project included ownership interests in the Mead-Phoenix and Mead Adelanto Transmission Projects and transmission service contracts from Los Angeles Department of Water and Power (LADWP) and Southern California Edison Company (SCE) which, when used in conjunction, was used to deliver San Juan generation from the TEP system to the Members in Northern California. More specifically, the Southwest Transmission Project consisted of the following components:

- Between the Mead Substation and Phoenix, M-S-R PPA had the following rights:
 - Component A: An 11.538% interest (221.9 MW transmission capability) in the Westwing-Mead 1923 MW transmission linear 246-mile transmission line from the Westwing Substation in southern Arizona to the Mead Substation near Las Vegas, Nevada (the “Mead-Phoenix Segment.”)
 - Component B: 0% interest in the Mead 500 kV – 230 kV transformer
 - Component C: An 8.0993% interest (210.6 MW) in the 2600 MW linear 12-mile transmission line from Mead to Marketplace and including a proportionate 50% interest in the Marketplace substation and associated facilities (the “Mead Marketplace Segment.”)
- A one-mile interconnection between McCullough and Marketplace Substations near Las Vegas, Nevada (the “McCullough Tie-Lines”), which is considered a common bus with Marketplace Substation.
- A 17.5% interest (225.9 MW transmission capability) in a 1291 MW linear 214-mile transmission line from the Marketplace Substation (and including a proportionate 50% interest in the Marketplace substation and associated facilities) near Las Vegas, Nevada to the Adelanto Substation near Los Angeles, California (the “Mead-Adelanto Segment”).
- Arrangements with LADWP for transmission service (225.9 MW transmission capability) from

the Adelanto Substation near Los Angeles, California, to the midpoint of the Victorville-Lugo transmission line.

- The Firm Transmission Service Agreement (Rate Schedule No. 339) with SCE for transmission service (150 MW transmission capability) from the midpoint of the Victorville-Lugo transmission line to the Midway Substation in central California (SCE TSA). On January 1, 2014, the Agency perfected a partial termination of the SCE TSA to reduce the contract capability from 150 MW to 98 MW to reflect the more economic use of New Firm Use transmission service to be provided by the California Independent System Operator (CAISO) to Santa Clara in lieu of using this component of the SWTP. This agreement was terminated effective May 1, 2015.
- Transmission service from the Midway Substation (the terminus of the Southwest Transmission Project as described above) to the Members was provided through transmission arrangements between the Transmission Agency of Northern California (TANC) and PG&E (SOTP ETC).

On July 22, 2015, the M-S-R PPA adopted Resolution 2015-03 authorizing a number of actions including the proposed sale of its ownership interests in the Mead-Phoenix and Mead-Adelanto Projects to the Southern California Public Power Authority (SCPPA) for the sum of \$60 million. This transaction closed May 25, 2016.

E. PACIFIC NORTHWEST LETTER AGREEMENTS (BONNEVILLE CONTRACT)

During the planning stages of the California-Oregon Transmission Project (COTP), M-S-R PPA conducted an evaluation of available resources in the Pacific Northwest that could utilize the COTP when constructed. As each of the Members had rights on the COTP through their membership in the project developer, the Transmission Agency of Northern California (TANC), it was decided to conduct this investigation jointly. Over a dozen utilities were interviewed and the process led to three letter of intent agreements. The first was with Bonneville Power Administration (Bonneville or BPA) for a 20-year block of surplus energy which would convert to a seasonal exchange once the surplus energy was no longer available. The second was with PacifiCorp and would involve a block of energy supported by PacifiCorp's portfolio of coal-fired generating plants. The third was with Pacific Northwest Generating Company (PNGC) regarding its fractional interest in the Boardman Coal Plant.

Only the Bonneville letter agreement resulted in a contract. The other two letter agreements ultimately did not result in contracts. The Bonneville Contract was completed and energy deliveries began with the commercial operation of the COTP and was to run through April 30, 2013. After

several years, key provisions of the agreement were renegotiated to M-S-R PPA's benefit. Bonneville subsequently exercised its right to effect a termination of the agreement on five-years notice and deliveries concluded September 30, 2005.

F. DEVERS-PALO VERDE NO. 2 TRANSMISSION PROJECT (DPV-2)

During the development of the Southwest Transmission Project to support deliveries of the San Juan Project, M-S-R PPA was faced with the task of securing transmission across the SCE service territory. SCE was sponsoring the second transmission line between Devers Substation and the Palo Verde Switchyard. SCE would provide the transmission service between Midway Substation and Devers Substation in exchange for M-S-R PPA's participation in the project planning process. This project was being developed concurrently with the development of the Mead-Phoenix and Mead Adelanto Transmission Projects. Besides M-S-R PPA, many of the southern California municipal utilities were participating in both transmission paths because it was not clear which, if either, was going to be built. When it was clear Mead-Phoenix and Mead-Adelanto were moving forward, SCE agreed to provide M-S-R PPA with transmission service contract between Midway Substation and the

LADWP transmission system but was still interested in M-S-R PPA's participation in DPV-2 to complete the path through Mead. M-S-R PPA agreed to assign 60 MW of its transfer rights on the Mead-Adelanto Transmission for a 4-year term, during 1996 to 1999, in exchange for being released from its obligation to participate in DPV-2. M-S-R PPA's participation in DPV-2 was officially terminated several years later when SCE returned to M-S-R PPA the planning money it had contributed to the project.

G. ADELANTO-LUGO TRANSMISSION PROJECT

In the development of the Mead-Adelanto Transmission Project there was a disagreement over where to terminate the project in California. Certain Southern California municipal utilities participating in the project desired to have the project terminate in the LADWP system as they had transmission service contract rights through LADWP for delivery of generation to their individual systems. Other Southern California municipal utilities desired the project termination to be in the SCE transmission system, as they had contract transmission service rights through SCE for delivery of generation to their individual systems. M-S-R PPA also desired a SCE termination point. The proposed resolution was a

termination of the project at Adelanto Switchyard with LADWP providing transmission service contracts between Adelanto and the SCE transmission system.

Once this plan was completed, the City of Anaheim (Anaheim) led the group of utilities desiring transmission service to the SCE transmission system in a study to add additional transmission facilities to replace the transmission service to be provided by LADWP. This effort became known as the Adelanto-Lugo Transmission Project. Environmental studies were completed and preliminary engineering commenced. Anaheim then convinced M-S-R PPA to assume the Project Management role for the project. Shortly after the transition of Project Management was completed, Anaheim announced it was withdrawing from the project. As there was insufficient interest in the project with Anaheim as the largest participant gone, M-S-R PPA chose to close out the contracts and terminate the project and rely on the aforementioned LADWP transmission service between Adelanto and the SCE system.

H. CALIFORNIA-OREGON TRANSMISSION PROJECT AND SOUTH OF TESLA PRINCIPLES

Since the 1960's when Pacific Gas and Electric Company (PG&E) had exclusive access to the AC portion of the Pacific Northwest-Pacific Southwest 500-KV transmission system from Northern California to the Pacific Northwest (Intertie) only three governmental entities had rights on this system, Western Area Power Administration (Western), California Department of Water Resources (CDWR), and Sacramento Municipal Utility District (SMUD). There had been discussions among other municipal utilities interested in securing access to the Intertie and requests for such access had failed to yield results. In the offices of Resource Management International, Inc. (RMI) on December 22, 1982, key representatives of M-S-R PPA met to discuss their options. During the course of that meeting, a PG&E transmission tower failure near Tracy, California plunged over 5 million people in Northern California into darkness. It was then resolved by the meeting participants that the Members needed to obtain reliable transmission independent of PG&E.

Preliminary studies were undertaken under the working group known as the Northwest Transmission Joint Venture (NTJV). The founders of this working group were the M-S-R PPA Members. Their initial efforts took the project to the point where additional participation shares could be allocated. Modesto suggested its neighboring irrigation district, Turlock Irrigation District, be asked to participate. Santa Clara suggested its joint members in the Northern California Power Agency (NCPA) be asked to participate. Finally, SMUD approached the group and suggested it also be allowed to participate. This group of 15 municipal entities formed a joint powers agency in December 1984 with the name of the Transmission Agency of Northern California (TANC) with the intent of constructing the COTP.

As the COTP project progressed, additional entities including the California Investor-Owned Utilities (IOUs) PG&E, SCE, San Diego Gas and Electric Company (SDG&E) expressed interest in participating in the COTP. Southern California municipal utilities also expressed interest in participation in the COTP and extending the project into Southern California. PG&E successfully argued that additional facilities did not need to be built south of Tesla Substation and that PG&E would grant transmission service to those requesting such service. The SOTP provided 300 MW of transmission service between Tesla Substation and Midway Substation (including 150 MW for M-S R PPA) until additional upgrades was necessary. In that instance, SOTP Participants could pay for their portion of necessary upgrades.

With a proposed participation of almost half of the COTP capacity, the IOUs applied to the California Public Utilities Commission (CPUC) for Certificates of Public Convenience and Necessity (CPCN) for recovery of their investment in the COTP in rates. The CPUC rejected the applications of PG&E and SCE in the basis of lack of necessity and SDG&E was asked to provide additional documentation. None responded and all three IOUs withdrew from the COTP. In addition, PG&E refused to honor its commitments for SOTP transmission service but TANC successfully challenged PG&E at the Federal Energy Regulatory Commission (FERC) and the SOTP became a FERC approved rate schedule. The TANC Members had agreed to “step-up” their participation percentages in the COTP if, indeed, the CPUC took the action that it did. This step assured there was sufficient support for the project to move forward and TANC energized the COTP in 1993.

As part of the SOTP service, TANC and M-S-R PPA Members had committed to fund the costs of certain transmission system upgrades (Los Banos-Gates.) To cover such expenses, M-S-R PPA included an allocation \$4.2 million in its Series E Bonds to cover such expenses. Although PG&E subsequently performed the transmission upgrades, the costs were placed in Rate Base and reimbursements were not requested from either TANC or M-S-R PPA. In compliance with its Bond Indentures, M-S-R PPA used these funds to retire debt later in the 1990s.

I. EAST-SIDE TIE

Another project investigated by M-S-R PPA was a transmission line that would interconnect Tracy Substation and Adelanto Substation via a new line running down the east side of the Central Valley. This project known as the East Side Tie (and also referred to as the Central California Desert Southwest Transmission Project or CCDSW) would, if completed, in conjunction with the COTP, have created a municipal transmission path between Oregon through California to Arizona. This path would have

eliminated the need for transmission service from the California IOUs for deliveries of capacity and energy from or between the Pacific Northwest and the Southwest. This project was studied by M-S-R PPA twice during the 1980s. The largest obstacle appeared to be the total cost, potentially \$1 billion. Although the project never evolved past the planning stage, the concept resurfaced in the late 2000s when TANC was planning numerous transmission projects around Northern California known as the TANC Transmission Project or TTP. One segment would have directly connected Santa Clara to the municipal utility transmission network. Another segment would have expanded the transmission system around Modesto and Turlock, which would have reinforced connections between Adelanto Substation and the transmission system in Northern California. Ultimately, support for all segments failed and no elements of the TTP were constructed.

J. SAN JUAN GENERATING STATION (OPERATING PHASE)

The operation and maintenance of the San Juan Generating Station by the Public Service Company of New Mexico (PNM) as Operating Agent was governed by the San Juan Project Participation Agreement. The provision of reserve sharing and power exchange services was provided by two surviving Service Schedules (Service Schedules “E” and “D” respectively) to an Interconnection Agreement Between Tucson Electric Power Company and M-S-R Public Power Agency dated September 20, 1982.

On July 22, 2015, M-S-R PPA adopted Resolution 2015-02 approving the execution of the following agreements which allowed the divestiture of the Agency’s ownership interest in the San Juan Generating Station on December 31, 2017 with effective dates as noted:

- (1) San Juan Project Restructuring Agreement (Effective January 31, 2016),
- (2) Amended and Restated Mine Reclamation and Trust Funds Agreement (Effective January 31, 2016),
- (3) San Juan Decommissioning and Trust Funds Agreement (Effective December 31, 2017),
- (4) Restructuring Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement (Effective January 31, 2016), and
- (5) Exit Date Amendment Amending the Amended and Restated San Juan Project Participation Agreement (Effective December 31, 2017).

On July 19, 2017, M-S-R PPA adopted Resolution 2017-03 approving the execution of the following agreements which administratively completed the divestiture of the Agency’s ownership interest in the San Juan Generating Station on December 31, 2017:

- (1) Assignment, Assumption, Termination and Release Agreement,
- (2) New Exit Date Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement,
- (3) Termination Agreement – Capacity Option and Funding Agreement,
- (4) Amendment Agreement to San Juan Project Early Purchase and Participation Agreement.
- (5) Letter Agreement – Termination of Interconnection Agreement between PNM and M-S-R,
- (6) Termination Agreement – Amended and Restated Interconnection Agreement with Tucson Electric Power Company,
- (7) Amended and Restated NERC Delegation Agreement and Acknowledgment among Participants in San Juan Project,
- (8) Amended and Restated San Juan Project Designated Representative Agreement
- (9) Termination of San Juan Unit 4 Operating Procedure No. 1 Between PNM and M-S-R,
- (10) Instrument of Sale and Conveyance between M-S-R and PNM
- (11) Termination and Relinquishment by M-S-R.
- (12) Easement and Right of Entry.

The goals of the Agency in the divestiture of the San Juan Project were to relieve the Members from US EPA mandates to install uneconomic Clean Air Act Regional Haze station retrofits, to mitigate rapidly escalating Fuel and O&M costs, and to further comply with requirements of California Law including SB 1368 and AB 32. The benefits of the proposed restructuring of the San Juan Project were estimated to result in about \$6 million in immediate project operating cost savings, avoiding about \$28 million in station retrofit costs, allowing ongoing power cost savings valued at about \$200 million in a Navigant Consulting Inc. (NCI) 2014 study covering a 20-year period, and bounding current and future Agency liabilities. The Agency further caused the preparation of an Independent Consultant's Report as required under the Agency's Bond Indentures. In that report, the Independent Consultant found that through the seven-year period beginning in 2015 and continuing through the final retirement of the Agency's San Juan Project Revenue Bonds in July 2022, the Member's power supply costs would be reduced by \$81 million on a Net Present Value basis and that "it would be in accordance with sound utility practice to pursue a divestiture of the San Juan Unit No. 4 in accordance with the terms of the

Restructuring Agreements and that such divestiture would not impair the ability of the Agency to comply with Bond Covenants nor would it hinder the Agency's ability to make debt service payments as prescribed in its financing documents."

VI. HISTORIC LEGAL AND REGULATORY ACTIONS

Since its founding, M-S-R PPA has been party to a number of legal and regulatory actions. The following listing is intended to provide an overview of historic proceedings and provide context for past decisions by the Agency which subsequently influenced the development of its current projects, policies, and procedures.

A. TUCSON ELECTRIC POWER COMPANY – BREACH OF CONTRACT

Pursuant to Service Schedule B of the Interconnection Agreement between M-S-R PPA and TEP, M-S-R PPA was afforded access to system energy from the TEP system for use or sale to third parties. Under a formula mechanism, M-S-R PPA paid production cost plus 3 mills/kWh hour to TEP for their assistance in administering M-S-R PPA's transactions. Upon commencement of the arrangement in 1982, M-S-R PPA secured a sale to SCE that was renewed annually through 1984. In 1985, TEP changed management and chose to contract directly with SCE leaving M-S-R PPA without counterparty. M-S-R PPA executed short-term sales arrangements with El Paso Electric Company and Texas-New Mexico Power Company, but it was obvious that M-S-R PPA had been damaged by TEP. On April 1, 1986, M-S-R PPA filed suit against TEP for Breach of Contract in Federal District Court and on October 31, 1989, M-S-R PPA was awarded a judgment against TEP for \$5 million.

B. STOLEN BEARER BONDS

In the early 1980s, Bearer Bonds from two different series were reported to the Agency as being lost or stolen. M-S-R PPA obtained Surety Bonds to protect the Agency and replacement Bearer Bonds were issued. The original bonds were eventually purchased by a third party in Switzerland and under a Swiss doctrine of a good faith purchase were presented for payment. Suit was filed in the Supreme Court of the State of New York by the purported purchasers to perfect their claims. M-S-R PPA tendered defense of the claims to the issuers of the Surety Bonds and no further payments or action by the Agency were required. Similarly in 2018, documents related to the Series 2008M Bonds were reported missing by the direct placement bondholder, and the Trustee required the posting of a Surety Bond by

the bondholder before these Bonds could be paid.

C. SIERRA CLUB/GRAND CANYON TRUST – CLEAN AIR ACT – SAN JUAN

PNM, as Operating Agent and largest single owner of the San Juan Generating Station, was sued by Sierra Club/Grand Canyon Trust in 2002 over allegations of visibility/particulate violations. PNM subsequently negotiated a settlement (Consent Decree) in 2005 requiring retirement of the electrostatic precipitators used for particulate control on each of the four San Juan units and their replacement with baghouses, the installation of a mercury removal system, and the reduction of allowable limits for certain other emissions. Relying on PNM's estimate the total cost of the project of approximately \$110 Million, the San Juan Owners signed a Memorandum of Understanding to support PNM in its settlement with Sierra Club/Grand Canyon Trust. With this commitment, the project proceeded but ultimately cost in excess of \$320 million. M-S-R PPA's final share of the cost for Unit No. 4 was greater than \$24 million. The upgraded environmental systems were completed on Unit No. 4 in 2007. Ongoing environmental monitoring was required and continues in effect by the Remaining San Juan Participants.

D. SIERRA CLUB GROUND WATER – SAN JUAN

In December 2009, the San Juan Owners each received a notice of intent to sue under the Resources Conservation and Recovery Act (RCRA) from the Sierra Club alleging violations of ground and surface water contamination standards and improper placement of Coal Combustion Waste (CCW) in the San Juan mine. A settlement was eventually reached which resulted in a \$10 Million commitment by the San Juan Owners to construct a slurry wall to capture potential offsite transfer of groundwater water from the plant site and other related projects. The installation of the slurry wall has been delayed due to property rights issues and although approved for construction in 2014, was completed in 2018. Additional projects were completed at a cost limit established in the settlement by the Remaining San Juan Participants.

E. SOUTHERN CALIFORNIA EDISON TRANSMISSION RATE CASES

On November 21, 1991, SCE signed Negotiating Principles with M-S-R PPA regarding transmission service from Victorville-Lugo to Midway. These principles were formalized in an Agreement dated May 1, 1995 (FERC Rate Schedule No. 339). This agreement came to be called an Existing Transmission Contract (ETC) after the California Independent System Operator (CAISO) took

operational control of the IOU transmission systems in 1998.

Since the ETC was implemented, SCE has exercised its rights under the contract and applied to FERC to have the rates and charges for transmission service modified. Starting in 2008, SCE filed rate cases before the FERC that had the effect of increasing the costs of the transmission service provided to M S-R PPA by orders of magnitude. M-S-R PPA vigorously contested these cases before FERC and, in adjudicated settlement processes, achieved and maintained rate-freezes with a transition to rolled-in rates. However, once the rate-freeze period ended on January 1, 2014, the stated rates under SCE's tariff increased to a level that rendered the transmission service uneconomic.

Each of the M-S-R PPA Members subsequently caused independent studies to be performed and to reach conclusions that alternate means of delivering San Juan Project Capacity and Energy was more economic and efficient than continuing to utilize the SCE TSA. Effective January 1, 2014 the M-S-R PPA Transmission Service was reduced from 150 MW to 98 MW on behalf of Santa Clara; effective January 1, 2015 reduced to 75 MW on behalf of Redding; and effective May 1, 2015 was terminated in its entirety on behalf of MID.

F. BONNEVILLE POWER ADMINISTRATION POWER SALES AGREEMENT AND OTHER LITIGATION

On September 30, 1997, Bonneville Power Administration (BPA or Bonneville) and M-S-R PPA executed a Firm Power Sales Agreement (BPA Agreement) which guaranteed that BPA would sell M-S-R PPA excess federal power through September 2004, and potentially until April 2013. The agreement required that BPA provide M-S-R PPA with an annual forecast of available excess federal power for the upcoming ten years and that BPA determine whether the anticipated amount of excess federal power would cover M-S-R PPA's energy needs for the sixth year beyond the current year. If Bonneville determined in any two consecutive years that it would have insufficient excess federal power to serve M-S-R PPA's needs and properly notified M-S-R PPA of this in writing, the Sales Agreement would of its own force terminate five years from the date shown on Bonneville's notice of termination.

In 1999 and 2000 BPA issued annual ten-year forecasts projecting that no excess federal power would be available in 2004 and 2005 and provided the two notices necessary to terminate the BPA Agreement effective September 30, 2005.

M-S-R PPA filed three petitions for review with the Ninth Circuit U.S. Court of Appeals challenging:

(1) Bonneville's reliance on factors other than its "then current contracts" for its August 30, 1999 forecast of excess federal power, its determination of insufficient excess federal power to serve M-S R's needs in 2005, and the timeliness of its October 20, 1999 notice of that determination; (2) Bonneville's reliance on factors other than its "then-current contracts" for its September 28, 2000 "preliminary forecast" of excess federal power, and the timeliness of its September 29, 2000 notice of that power determination; and (3) the timeliness of Bonneville's December 19, 2000 "final" excess federal power forecast. M-S-R PPA contended these "fatal flaws" rendered the 1999 and 2000 determinations of excess power "void and of no force or effect" and required the Court to enjoin the termination of the BPA Agreement.

The Court determined that although M-S-R PPA contended that Bonneville failed to abide by the requirements of the BPA Agreement when forecasting excess federal power, M-S-R PPA actually challenged a decision made pursuant to BPA's statutory authority to forecast excess federal power. The Court further found that Congress implicitly delegated to BPA the authority to develop the necessary procedures to implement the marketing of excess federal power and that it was eminently reasonable for Bonneville to ground its forecasts in the best information available at that time, *i.e.*, predictions of future energy demand derived from its subscription process. The Court found BPA's consideration of these factors was neither arbitrary nor capricious and further found that it saw nothing arbitrary or capricious about BPA accounting for its unconditional obligations before its conditional ones. Finally, the Court determined that M-S-R's Timeliness Claims sounded in contract, and dismissed them for lack of jurisdiction. (*M-S-R Public Power Agency v. Bonneville Power Admin.* 297 F.3d 833 (9th Cir. 2002))

In 2011 BPA adopted Dispatcher Standing Order-216 (DSO-216) and a subsequent Record of Decision (ROD) regarding Environmental Redispatch. Pacific Northwest parties filed complaints to the Federal Energy Regulatory Commission (FERC). The ROD was subsequently overturned, but not before there were significant curtailments in summer 2011. BPA then filed an Oversupply

Management Protocol (OMP) with FERC and unilaterally applied it during the 2012 runoff season resulting in similar curtailments. Subsequently, the FERC accepted the oversupply protocol as an interim remedy conditioned upon Bonneville's filing of a proposed methodology for allocating displacement costs "in a manner that results in comparability in the provision of transmission service for all resources." BPA filed a request asking the FERC to reconsider its condition that BPA file a cost allocation methodology before the Commission would fully accept the oversupply protocol and its directive to file a new cost allocation methodology within 90 days of the order. The OS-14 rate

proceeding, which established rates to recover the costs incurred under BPA's Oversupply Management Protocol, was concluded on March 27, 2014.

On July 23, 2015, BPA concluded the BP-16 rate proceeding to set power and transmission rates for the FY 2016 to 2017 rate period by issuance of the final Record of Decision. The rate schedules continue to allocate oversupply costs to generators within the BPA Balancing Area Authorities (BAAs) in proportion to their transmission schedules compared to total schedules during the oversupply period. Issues currently being addressed in post-case workshops include: Agency level financial reserves policy, Southern Intertie value issues, secondary revenue projections, debt repayment model, Montana wind development issues, capital investment strategies, and cost containment. The BP-20 rate proceeding was completed and new rates took effect October 1, 2019.

G. CALIFORNIA SENATE BILL 1368

California Senate Bill 1368 (SB 1368 – Statutes of 2006) established an Emissions Performance Standard of and prohibited certain investments in non-compliant facilities. Regulations promulgated by the California Energy Commission pursuant (CEC) to SB 1368 (06-OIR-1) restrict investments in baseload generation that does not meet an Emissions Performance Standard of 1,100 pounds of CO₂ per MWh of electricity, with limited exceptions including but not limited to routine maintenance, requirements of pre-existing contractual commitments, system reliability, or threat of significant financial harm. The law and related regulations require ongoing review and determination as to whether investments at the San Juan Project are permitted or are proscribed “covered procurements.” M-S-R PPA reviewed all prospective San Juan Project Capital Budget Items and made findings as to whether or not they constitute routine maintenance, are required by Prudent Utility Practice, or otherwise meet any of the exceptions or exemptions provided in the California Energy Commission's (CEC) regulations. Capital Budget Items that impermissibly extend the life of the San Juan Project or otherwise fail to meet the requirements of the regulations may not be approved by the Agency. Through contractual arrangements with other San Juan owners, M-S-R PPA was relieved from the obligation of paying for Capital Budget Items effective July 1, 2014. Through the Restructuring Agreements, M-S-R PPA was relieved from requirements to vote on Capital Budget Items effective January 31, 2016. Therefore, M-S-R PPA no longer needs to make determinations pursuant to SB 1368 regulations.

On November 14, 2011, National Resources Defense Council (NRDC)/Sierra Club filed a petition with the CEC alleging California publicly owned utilities (POUs) are ignoring or violating the emission

performance standards as they may be applicable to investments in coal-fired generating facilities such as the San Juan Project. In response, on January 12, 2012, the CEC issued an Order Instituting Rulemaking (12-OIR-01) to review the emission performance standard. On July 9, 2012, the CEC issued Tentative Conclusions and Requests for Additional Information followed by a Request for Reply Comments on August 31, 2012. As described in these requests, CEC considered amending their regulations to require the filing of additional information by POUs but did not propose any substantive changes in the emission performance standard. On March 19, 2014 the CEC in a Rulemaking concluded that the threshold for reporting capital projects under SB1368 should be set at \$2.5 million (or about 0.28 percent of annual capital expenditures for the San Juan Project). The CEC further required that Publicly Owned Utilities (POUs) provide an annual compliance plan with the Energy Commission for each non-EPS compliant facility, including for investments, capital expenditures, contractual changes, sales of interest or other activity; however, this requirement has an exemption for any facilities for which a POU has entered into a binding agreement to divest itself within five years; the exemption to remain for as long as the binding agreement is in place or the divestment has been completed. Given the execution of the Restructuring Agreements, M-S-R PPA believed it had met the requirements for this exemption. With the completion of the divestiture of the San Juan assets, this requirement and associated exemption is now moot.

VII. FINANCING HISTORY

In September 1982, M-S-R PPA purchased from TEP certain system rights and an option to purchase a 28.8 percent interest in San Juan Unit 4 from PNM by May 1995. M-S-R PPA issued a promissory note to TEP for the purchase price with the intent to replace the note with permanent financing. Before the permanent financing structure was completed, M-S-R PPA negotiated an early purchase of the ownership interest in San Juan Unit 4 from PNM effective December 31, 1983.

In June 1983, M-S-R PPA issued its \$215,000,000 San Juan Project Bond Anticipation Notes, Series A (Series A Notes) and \$232,000,000 San Juan Project Revenue Bonds, Series A (Series A Bonds) for the purpose of financing the portion of San Juan Project costs covering the payments to TEP and PNM. The decision to use the Series A Notes was to take advantage of the much lower short-term interest rates.

In October 1984, M-S-R PPA issued its \$220,600,000 San Juan Project Bond Anticipation Notes, Series B (Series B Notes) to provide funds to pay the Series A Notes. The Series B Notes did not mature until 1989, but a California initiative in 1985 would have, if approved by voters, limited

municipal entities from securing long term financing. Facing the potential of having no means for meeting its obligations for the Series B Notes, M-S-R PPA issued its \$267,245,000 San Juan Project Revenue Bonds, Series B (Series B Bonds) to provide funds to pay the Series B Notes in August 1985. (The California initiative subsequently failed.)

In March 1987, M-S-R PPA issued its \$273,760,000 San Juan Project Revenue Bonds, Series C (Series C Bonds) to refund \$244,795,000 aggregate principal amount of Series B Bonds.

In January 1990, M-S-R PPA issued its \$86,000,000 San Juan Revenue Bonds, Series D (Series D Bonds) to refund \$76,675,000 aggregate principle of Series A Bonds.

M-S-R PPA issued its \$117,135,000 Series E Bonds in April 1991 to finance its ownership interest in the Southwest Transmission Project. The funds were used to construct a portion of the Mead-Phoenix Transmission Project, a portion of the Mead-Adelanto Transmission Project, and set aside \$5 Million for possible improvements on the PG&E Transmission system north of Midway Substation. PG&E improvements were ultimately completed without the need for funds from M-S-R PPA and construction costs for the Southwest Transmission Project were less than projected. In February 1997, M-S-R PPA took the available cash (\$28.47 Million) and retired certain Series E Bonds.

In 1993, M-S-R PPA issued \$108,960,000 San Juan Project Bonds, Series F (Series F Bonds) – April 1993 to refund certain Series A Bonds.

M-S-R PPA has issued refunding bonds to take advantage of improved interest rates over the years. In 1995, M-S-R PPA neared its limit for outstanding bond debt under the original bond indentures and instituted a Subordinate Lien Indenture to complete refundings and to issue variable rate debt not permitted under the original bond indentures. In addition, Internal Revenue Service rules limit the number of refundings as being eligible for tax-exempt status. Therefore, certain refunding debt was issued as taxable debt.

In 1995, M-S-R PPA issued \$21.3 Million, San Juan Project Subordinate Lien Revenue Bonds, Series 1995B (Series 1995B Bonds) – December 1995 (Tax-Exempt) and \$22.45 Million, San Juan Project Subordinate Lien Revenue Bonds, Series 1995C (Series 1995C Bonds) – December 1995 (Taxable) to refund certain Series B Bonds.

In 1997, M-S-R PPA issued floating rate debt to refund certain Series C Bonds and Series D Bonds:

- \$97,515,000 San Juan Project Bonds, Series G (Series G Bonds) – March 1997 • \$86,700,000 San Juan Project Bonds, Series H (Series H Bonds) – March 1997 • \$65,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 1997D (Series 1997D Bonds) –March 1997 (Tax-Exempt)
- \$65,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 1997E (Series 1997E Bonds) –March 1997 (Taxable)

In 1998, M-S-R PPA issued debt that was the subject of an interest rate swap with Morgan Guarantee Trust Company of New York to refund certain Series A and Series C Bonds.

- \$62,500,000 San Juan Project Subordinate Lien Revenue Bonds, Series 1998F (Series 1998F Bonds) –November 1998 (Tax-Exempt)
- \$17,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 1998G (Series 1998G Bonds) –November 1998 (Taxable)

In 2001, M-S-R PPA issued \$64,320,000 San Juan Project Bonds, Series 2001I (Series I Bonds) – September 2001 to refund outstanding Series E transmission project bonds.

In 2003, M-S-R PPA issued \$54,435,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2003I (Series 2003I Bonds) – May 2003 floating rate debt that was subject to an interest rate swap agreement from 2002 with Bear Sterns Capital Markets, Inc to refund certain Series F Bonds.

In 2004, M-S-R PPA issued \$50,330,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2004J (Series 2004J Bonds) – March 2004 to refund certain Series H Bonds and the outstanding Series 1995C Bonds.

In 2007, M-S-R PPA issued \$48,305,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2007K (Series 2007K Bonds) – December 2007 to refund the outstanding Series G Bonds.

In 2008, M-S-R PPA issued the following bonds to refund certain San Juan Project Subordinate Lien Revenue Bond from Series 1995B, Series 1997E, Series 1998F, Series 1998G and Series 2003I: • \$118,865,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2008L (Series 2008L Bonds) – July 2008

- \$62,500,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2008M (Series

2008M Bonds) – July 2008

- \$17,000,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2008N (Series 2008N Bonds) – July 2008

Also in 2008, interest rate swap agreements for the entire Series 2008M Bonds and Series 2008N Bonds were entered into with Morgan Guaranty Trust Company of New York.

In 2011, M-S-R PPA issued \$34,050,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2011O (Series 2011O Bonds) – April 2011 to refund certain Series 2001I Bonds. Also in 2011, M-S-R PPA remarketed and reissued the Series 2008M Bonds and Series 2008N Bonds to Wells Fargo Bank, National Association pursuant to a Continuing Covenant Agreement.

In 2013, M-S-R PPA issued \$57,485,000 San Juan Project Subordinate Lien Revenue Bonds, Series 2013P (Series 2013P Bonds) – Fall 2013 (Taxable) which were replaced with \$55.600 Million, San Juan Project Subordinate Lien Revenue Bonds Series 2014Q (Series 2014Q Bonds) – Spring 2014 (Tax-exempt) to refund certain Subordinate Lien Revenue Bonds Series 1997D.

In 2016 M-S-R PPA realized \$60 Million in cash from the sale of the Southwest Transmission Project. These funds were used to call and defease certain bonds and partially terminate swap arrangements at a total cost of \$51.7 million to reduce the remaining debt service payments by an amount of \$54.9 million. In addition, certain funds were used to partially fund a decommissioning trust fund, partially fund a mine reclamation trust fund, and to fund a debt service coverage revolving fund.

In 2018, M-S-R PPA issued \$98,850,000 San Juan Project Bonds, (Series 2018R Bonds) – Spring 2018 (Tax-exempt) which replace outstanding Series 2008L Bonds and refund outstanding Series 2008M Bonds and Series 2008N Bonds.

As of December 31, 2020, M-S-R PPA is scheduled to have the following outstanding debt:

Issue	Year of Issue	Maturity	Coupon Rates %	Amount of Issue	Principal Outstanding
San Juan Subordinate Lien Revenue Bonds Series 2018R	2018	2019-2022	4.00-5.00	\$98,850,000	\$51,195,000
Total				\$98,850,000	\$51,195,000

ALPHABETICAL LIST OF EXHIBITS:

EXHIBIT	TAB
<u>Asset Capitalization Policy</u> – Resolution No. 2014-06 Adopted August 20, 2014 Regarding Asset Capitalization Policy	23
<u>Baker Tilly Virchow Krause LLP</u> – Engagement of Baker Tilly Virchow Krause LLP as independent accountants dated September 25, 2015	13
<u>Big Horn Operating Procedures</u> – Service Schedule A to the Operating Agreement, Amended and Restated Big Horn Operating Procedures, adopted by the M-S-R PPA Commission November 23, 2012 per Resolution 2012-05	43
<u>Big Horn II Operating Procedures</u> – Operating Agreement Service Schedule K – Operating and Accounting Procedures For Big Horn II Wind Energy Project adopted by the M-S-R Commission May 18, 2011 pursuant to Resolution 2011-05	45
<u>CEQA Guidelines</u> – Resolution No. 95 – 1, Adopted February 22, 1995, Adopting Guidelines For The Implementation of the California Environmental Quality Act	53
<u>Clean Air Act Allowances</u> – M-S-R Clean Air Act SO2 Allowance Policy Adopted by M-S-R Commission September 28, 2005	47
<u>Conflict of Interest Code</u> – Conflict of Interest Code for M-S-R Public Power Agency effective July 6, 2016	21
<u>Coordinator Services</u> – Agreements for M-S-R Coordinator Services by and between M-S-R Public Power Agency and the Modesto Irrigation District, dated May 28, 1999, September 7, 2004, March 23, 2011 as amended March 18, 2015, and March 1, 2018.	42
<u>Counterparty Credit Reporting</u> – M-S-R General Manager’s administrative directive dated August 6, 2020 regarding Counterparty Credit Reporting.	34
<u>Decommissioning Agreement</u> – San Juan Decommissioning and Trust Funds Agreement Among Public Service Company of New Mexico, Tucson Electric Power Company, The City of Farmington, New Mexico, M-S-R Public Power Agency, The Incorporated County of Los Alamos, New Mexico, Southern California Public Power Authority, City of Anaheim, Utah Associated Municipal Power Systems, Tri-State Generation and Transmission Association, Inc., and PNMR Development and Management	37

Corporation, dated July 31, 2015.	
<u>Debt Management</u> – Resolution No. 2017-01, Adopted May 17, 2017, Regarding Debt Management Policy	33
<u>Debt Service Coverage</u> – Resolution No. 2014-07 Adopted September 24, 2014 Regarding Calculation of Debt Service Coverage	19
<u>Debt Service Coverage Revolving Fund</u> – Resolution No. 2016-02 Adopted July 20, 2016 Regarding Debt Service Coverage Revolving Fund	20

Operating Procedures.	
<u>Duncan, Weinberg, Genzer & Pembroke, PC</u> – Legal Services Agreement Between the M-S-R Public Power Agency and Duncan, Weinberg & Miller, PC dated as of January 17, 1986	6
<u>Election and Duties of Officers</u> – Resolution No. 2013 – 01 Adopted March 20, 2013 Regarding Election and Duties of Officers	2
<u>Energy Risk Management Policy</u> – Resolution No. 2013 – 06 Adopted October 16, 2013 Regarding Energy Risk Management Policy and Risk Management Guidelines	18
<u>Filing of Quarterly Treasurer’s Reports and Annual Audits</u> – Memorandum Dated November 23, 2015 Regarding Filing of Quarterly Treasurer’s Reports and Annual Audits	24
<u>Financial Management Committee Bylaws</u> – Resolution No. 2013 – 10 Adopted October 16, 2013 Amended and Restarted Rules Of Procedure For The Financial Management Committee	17
<u>General Manager Succession Plan</u> – General Manager Succession Plan dated February 19, 2020	15
<u>Investment Policy Guidelines</u> of the M-S-R Public Power Agency 2020 (approved by Commission February 19, 2020)	32
<u>Investment Signatories</u> – Resolution No. 2012 -03 Adopted July 18, 2012 Approving Signatories Authorized to Invest M-S-R Public Power Agency Monies in the Local Agency Investment Fund and Other Permitted Investments	22

<u>Joint Exercise Of Powers Agreement</u> – M-S-R Public Power Agency By And Among the Modesto Irrigation District and the City Of Santa Clara and the City Of Redding, dated as of April 29, 1980, Amended and Restated as of November 17, 1982, as amended by Amendment Number 1 to the Amended and Restated Joint Powers Agreement, dated June 26, 1990, and by Amendment 2 to the Amended and Restated Joint Exercise of Powers Agreement, dated January 24, 2006	1
<u>KBT, LLC</u> – Agreement for Professional Services by and between KBT, LLC and M-S-R Public Power Agency dated September 15, 2010	10
<u>L & R Workplan</u> – California and Federal Legislative And Regulatory Representative Workplans 2020	49
<u>Martin Hopper Energy Consulting</u> – Amended and Restated Management Services Agreement by and between M-S-R Public Power Agency and Martin R. Hopper dba Martin Hopper Energy Consulting effective as of, January 1, 2010 and most recent amendment (Amendment 8)	14
<u>Meeting Schedules And Posting Of Agendas</u> – Resolution No. 2013 – 05 Adopted October 16, 2013 Regarding Meeting Schedules And Procedures For Posting Of Agendas For The M-S-R PPA Commission	3
<u>Montague DeRose</u> – Agreement For Professional Financial Advisor Services by and between M-S-R Public Power Agency, and Montague DeRose And Associates, LLC, effective January 1, 2010, as amended	9

through Amendment No. 2.	
<u>Navigant Consulting, Inc.</u> – Agreement for Professional Services by and between Resource Management International, Inc, a wholly-owned subsidiary of Navigant Consulting, Inc, (nka Navigant, A Guidehouse Company) dated July 22, 1999, as amended February 7, 2012.	11
<u>Operating Agreement</u> – Amended and Restated Operating Agreement Between The M-S-R Public Power Agency and the Modesto Irrigation District, The City of Santa Clara, California, and The City of Redding, California dated February 1, 1997 with service schedules that may be revised from time to time. This agreement superseded the “Principles for the Scheduling and Dispatch of the M-S-R Public Power Agency’s San Juan Project Power,” dated June 20, 1984.	41

<u>Orrick, Herrington & Sutcliffe LLP</u> – Engagement Letter For Bond Counsel Services Outside a Specific Financing Program Between the M-S-R Public Power Agency And Orrick, Herrington & Sutcliffe LLP dated as of May 27, 1997	5
<u>Payments – Required Form</u> – M-S-R PPA Director’s administrative directive dated June 8, 2007	26
<u>Payments – Late</u> – Resolution No. 2018 - 02, Adopted September 19, 2018, Establishing a Policy Regarding Late Payment Policy	28
<u>Payments – Third Parties</u> – Resolution No. 95 - 3 Adopted April 19, 1995 Establishing A Policy For Payments By Third Parties On Behalf Of A Member To The Agency	27
<u>Payments – Timely</u> – Resolution No. 2009 – 02 Adopted May 20, 2009 Regarding The Timely Payment Of Invoices And Making Certain Delegations Of Agency	30
<u>PNW Power Sales Agreement</u> – Second Amended and Restated Pacific Northwest Project Power Sales Agreement dated May 24, 2005 between the M-S-R Public Power Agency and the Modesto Irrigation District, the City of Santa Clara, and the City of Redding	40
<u>Politico Group</u> – Agreement For Professional Services By And Between M S-R Public Power Agency and Politico Group effective as of January 1, 2013	12
<u>Porter Simon Professional Corporation</u> – Agreement for Legal Representation between Porter Simon Professional Corporation and M-S-R Public Power Agency dated as of August 1, 1997	4
<u>Procurement Policy</u> – Resolution No. 2013 – 08 Adopted October 16, 2013 Regarding Procurement Policy	29
<u>Privacy Statement – Web Site</u> – M-S-R Public Power Agency Revised: July 28, 2010	50
<u>Real Property Acquisition</u> – Resolution No. 95 – 2, Adopted February 22, 1995, Adopting Guidelines For The Acquisition Of Real Property	54
<u>Reclamation Agreement</u> – Amended and Restated Mine Reclamation and Trust Funds Agreement Among Public Service Company of New Mexico, Tucson Electric Power Company, The City of Farmington, New Mexico,	38

M-S-R Public Power Agency, The Incorporated County of Los Alamos, New Mexico, Southern California Public Power Authority, City of Anaheim, Utah Associated Municipal Power Systems, Tri-State Generation and Transmission Association, Inc., and PNMR Development and Management Corporation, dated July 31, 2015.	
<u>Records Retention</u> – Resolution No. 2013 – 02, Adopted on May 22, 2013, Regarding Retention and/or Destruction of Records	52
<u>Reimbursement of Support Services</u> – Resolution No. 2013 – 09, Adopted on October 16, 2013, Regarding Reimbursement of Costs of Support Services Provided By Member Agencies.	31
<u>Reserves</u> – Resolution No. 2016-04, Adopted November 16, 2016, Regarding Use and Transfers of Reserves and Working Capital	27
<u>Resource Agreements</u> – Service Schedule D to the Operating Agreement, Resource Agreements, adopted by the M-S-R PPA Technical Committee August 4, 2016	44
<u>San Juan – Restructuring Amendment</u> – Restructuring Amendment Amending and Restating the Amended And Restated San Juan Project Participation Agreement Among Public Service Company Of New Mexico, Tucson Electric Power Company, The City Of Farmington, New Mexico, M S-R Public Power Agency, The Incorporated County Of Los Alamos, New Mexico, Southern California Public Power Authority, City Of Anaheim, Utah Associated Municipal Power Systems, Tri-State Generation and Transmission Association, Inc. dated July 31, 2015	36
<u>Strategic Plan – Annual</u> – M-S-R Public Power Agency Strategic Plan effective January 1, 2021 (approved by Commission September 30, 2020)	55
<u>Susie Berlin</u> – Legal Services Agreement By and Between Law Offices of Susie Berlin and the M-S-R Public Power Agency dated April 1, 2013	7
<u>Technical Committee Bylaws</u> – Resolution 2011 – 01 Adopted January 19, 2011 Rules Of Procedure For The Technical Committee	16
<u>Ten-Year Forecast</u> – San Juan Ten-Year Forecast and Legacy Liability Funding Status Report, noted and filed by M-S-R Commission February 19, 2020.	39
<u>Terms of Use Agreement – Web Site</u> Between User and M-S-R Public Power Agency Revised: July 28, 2010	51

<u>Tucson/San Juan Project Power Sales Agreement</u> dated November 17, 1982, as amended August 30, 1999, between the M-S-R Public Power Agency and the Modesto Irrigation District, the City of Santa Clara, and the City of Redding	35
<u>Virtue & Najjar, PC</u> – Engagement Letter Between Virtue & Najjar, PC and the M-S-R Public Power Agency dated April 24, 2019.	8
<u>Wildfire Mitigation Plans</u> – Resolution 2019-01 Adopted September 18, 2019, Regarding Wildfire Mitigation Plans.	48
<u>Working Capital Policy</u> – Resolution No. 2020-01, Adopted September 30, 2020 Regarding Working Capital Policy	25
<u>WREGIS REC Accounting</u> – Policy and Procedure 2009-01, WREGIS REC Accounting and Distribution, dated August 31, 2009	46